

CHENG UEI PRECISION INDUSTRY CO., LTD.
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2009 AND 2010

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM
CHINESE-LANGUAGE

PWCR10000436

To the Board of Directors and Stockholders of Cheng Uei Precision Industry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cheng Uei Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2009 and 2010, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended, expressed in thousands of New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As stated in Note 1 (2), the financial statements of certain subsidiaries for 2009 and 2010 were audited by other auditors. Total assets of these subsidiaries amounted to NT\$1,909,582 thousand and NT\$2,499,462 thousand, representing 4.95% and 4.85% of the consolidated total assets as of December 31, 2009 and 2010, respectively, and total operating revenues amounted to NT\$977,954 thousand and NT\$4,226,132 thousand, representing 2.31% and 7.41% of the consolidated total operating revenues for the years then ended. In addition, the investment income (loss) and disclosures in Note 11 for the year ended December 31, 2010 in relation to certain long-term equity investments of Cheng Uei Precision Industry Co., Ltd. and its subsidiaries accounted for under the equity method are prepared based on the investee companies' financial statements for the corresponding period, which were audited by other auditors. Such long-term equity investments incurred investment losses totaling NT\$131,229 thousand for the year ended December 31, 2010 and the balance of the related long-term equity investments was NT\$798,219 thousand as of December 31, 2010.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Cheng Uei Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2009 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with the “Rules Governing the Preparation of the Financial Statements by Securities Issuers” and generally accepted accounting principles in the Republic of China.

As stated in Note 3, effective January 1, 2009, the Group adopted the revised R.O.C. SFAS No. 10, “Accounting for Inventories”.

The consolidated financial statements as of and for the year ended December 31, 2010, expressed in United States (US) dollars are presented solely for the convenience of the readers and were translated from the financial statements expressed in New Taiwan dollars using the exchange rate of US\$1.00:NT\$29.13 at December 31, 2010. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers

April 25, 2010

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS)

	2009	2010	2010
	New Taiwan Dollars		US Dollars
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
			(Unaudited)
			(Note 2)
Cash (Note 4(1))	\$ 4,821,603	\$ 5,755,015	\$ 197,563
Financial assets at fair value through profit or loss - current (Note 4(2))	477,442	80,596	2,767
Notes receivable, net	21,953	11,120	382
Accounts receivable, net (Note 4(3))	8,673,540	14,051,892	482,386
Accounts receivable, net - related parties (Note 5)	265,972	305,543	10,489
Other receivables	849,120	966,154	33,167
Other receivables – related parties (Note 5)	72,231	246,429	8,460
Other financial assets - current (Note 6)	82,017	10,874	373
Inventories - net (Note 4(4))	4,671,058	7,630,447	261,945
Prepaid expenses	63,659	131,594	4,517
Prepayments	105,267	294,753	10,118
Deferred income tax assets - current (Note 4(17))	82,210	86,255	2,961
	<u>20,186,072</u>	<u>29,570,672</u>	<u>1,015,128</u>
<u>LONG-TERM INVESTMENTS</u>			
Available-for-sale financial assets - non-current (Note 4(5))	-	989,977	33,985
Financial assets carried at cost - non-current	259,241	37,500	1,288
Long-term investments accounted for under the equity method (Note 4(6))	2,047,371	2,798,377	96,065
	<u>2,306,612</u>	<u>3,825,854</u>	<u>131,338</u>
<u>PROPERTY, PLANT AND EQUIPMENT (Note 6)</u>			
Cost			
Land	160,321	544,763	18,701
Buildings	8,264,998	8,310,200	285,280
Machinery and equipment	9,984,319	11,307,065	388,159
Transportation equipment	23,575	27,152	932
Office equipment	273,566	332,626	11,419
Leasehold improvements	223,043	127,870	4,390
Other equipment	3,433,554	4,712,525	161,775
	<u>22,363,376</u>	<u>25,362,201</u>	<u>870,656</u>
Less: Accumulated depreciation (Note 4(7))	(8,611,949)	(9,705,544)	(333,181)
Accumulated impairment loss	(1,950)	(1,775)	(61)
Prepayments for equipment and construction in progress	1,111,891	591,068	20,291
	<u>14,861,368</u>	<u>16,245,950</u>	<u>557,705</u>
<u>INTANGIBLE ASSETS</u>			
Computer software costs	68,271	67,136	2,305
Goodwill (Note 4(8))	-	644,918	22,139
Deferred pension costs (Note 4(13))	15,416	78	3
Other intangible assets (Note 6)	519,193	511,823	17,570
	<u>602,880</u>	<u>1,223,955</u>	<u>42,017</u>
<u>OTHER ASSETS</u>			
Leased assets	312,046	248,806	8,541
Refundable deposits	64,759	165,410	5,678
Deferred assets	44,869	28,475	978
Deferred income tax assets - non-current (Note 4(17))	-	44,728	1,535
Other assets - others	198,973	177,589	6,096
	<u>620,647</u>	<u>665,008</u>	<u>22,828</u>
<u>TOTAL ASSETS</u>	<u>\$ 38,577,579</u>	<u>\$ 51,531,439</u>	<u>\$ 1,769,016</u>

(Continued)

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS)

	<u>2009</u>	<u>2010</u>	<u>2010</u>
	<u>New Taiwan Dollars</u>	<u>US Dollars</u>	<u>US Dollars</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
<u>CURRENT LIABILITIES</u>			
Short-term loans (Notes 4(9) and 6)	\$ 4,060,089	\$ 9,075,403	\$ 311,548
Notes and bills payable	99,902	69,935	2,401
Financial liabilities at fair value through profit or loss - current (Notes 4(2) and 4(11))	3,982	2,744	94
Notes payable	29,540	44,242	1,519
Accounts payable	6,098,752	10,037,277	344,568
Accounts payable - related parties (Note 5)	215,310	741,667	25,461
Income tax payable (Note 4(17))	364,239	514,021	17,646
Accrued expenses (Notes 4(8) and 5)	2,278,013	3,229,071	110,850
Other payables (Note 5)	726,323	778,537	26,726
Receipts in advance	228,951	432,243	14,838
Current portion of long-term liabilities (Note 4(11))	<u>3,427,383</u>	<u>1,040,862</u>	<u>35,732</u>
	<u>17,532,484</u>	<u>25,966,002</u>	<u>891,383</u>
<u>LONG-TERM LIABILITIES</u>			
Long-term loans (Notes 4(12) and 6)	1,730,889	4,783,572	164,215
Long-term capital lease liabilities	<u>-</u>	<u>27,587</u>	<u>947</u>
	<u>1,730,889</u>	<u>4,811,159</u>	<u>165,162</u>
<u>OTHER LIABILITIES</u>			
Accrued pension liabilities (Note 4(13))	124,091	126,219	4,333
Deferred income tax liabilities - non-current (Note 4(17))	175,604	102,103	3,505
Other liabilities - other	<u>15,166</u>	<u>47,714</u>	<u>1,638</u>
	<u>314,861</u>	<u>276,036</u>	<u>9,476</u>
Total Liabilities	<u>19,578,234</u>	<u>31,053,197</u>	<u>1,066,021</u>
<u>STOCKHOLDERS' EQUITY</u>			
Capital (Note 4(14))			
Common stock	4,539,655	4,643,807	159,417
Stock subscriptions received in advance	6,809	-	-
Capital reserve (Note 4(15))			
Paid in capital in excess of par value of common stock	7,193,710	7,702,458	264,417
Additional paid-in capital - treasury stock transactions	3,065	3,065	105
Capital reserve from long-term investments	57,790	91,789	3,151
Capital reserve from stock warrants (Note 4(11))	408,898	113,724	3,904
Retained earnings (Note 4(16))			
Legal reserve	1,253,576	1,393,273	47,829
Unappropriated earnings	4,368,447	4,821,163	165,505
Other adjustments to stockholders' equity			
Cumulative translation adjustments	520,662	(25,527)	(876)
Unrealized gain or loss on financial instruments (Note 4(5))	-	856,512	29,403
Minority interest	<u>646,733</u>	<u>877,978</u>	<u>30,140</u>
Total Stockholders' Equity	<u>18,999,345</u>	<u>20,478,242</u>	<u>702,995</u>
Significant commitments and contingent liabilities (Note 7)			
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>\$ 38,577,579</u>	<u>\$ 51,531,439</u>	<u>\$ 1,769,016</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated April 25, 2011.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNT)

	2009		2010		2010	
	New Taiwan Dollars		New Taiwan Dollars		US Dollars	
					(Unaudited)	
					(Note 2)	
Operating revenues (Note 5)						
Sales	\$	42,679,024	\$	57,259,219	\$	1,965,644
Sales returns	(	185,024)	(	176,715)	(	6,066)
Sales allowances	(	260,845)	(	85,842)	(	2,947)
Net sales		42,233,155		56,996,662		1,956,631
Operating costs						
Cost of goods sold (Notes 4(4), 4(20) and 5)	(	36,445,631)	(	49,904,758)	(	1,713,174)
Gross profit		5,787,524		7,091,904		243,457
Operating expenses (Notes 4(20) and 5)						
Sales and marketing expenses	(	511,935)	(	1,498,749)	(	51,450)
General and administrative expenses	(	2,853,734)	(	2,790,200)	(	95,784)
Research and development expenses	(	956,261)	(	1,219,812)	(	41,876)
Total operating expenses	(	4,321,930)	(	5,508,761)	(	189,110)
Operating income		1,465,594		1,583,143		54,347
Non-operating income and gains						
Interest income		35,002		23,442		805
Investment income accounted for under the equity method (Note 4(6))		108,115		-		-
Dividend income		1,006		1,509		52
Gain on disposal of investments		1,112		347,380		11,925
Foreign exchange gain - net		176,300		23,977		823
Rental income		48,271		18,549		637
Gain on valuation of financial assets		9,212		68,536		2,353
Gain on valuation of financial liabilities		97,362		256		9
Other non-operating income (Note 5)		325,363		569,245		19,542
Total non-operating income and gains		801,743		1,052,894		36,146
Non-operating expenses and losses						
Interest expense	(	256,687)	(	218,221)	(	7,491)
Investment loss accounted for under the equity method (Note 4(6))		-	(	42,637)	(	1,464)
Loss on disposal of property, plant and equipment	(	45,295)	(	29,742)	(	1,021)
Impairment loss	(	56,548)	(	18,680)	(	641)
Other non-operating losses	(	112,682)	(	115,799)	(	3,976)
Total non-operating expenses and losses	(	471,212)	(	425,079)	(	14,593)
Income before income tax		1,796,125		2,210,958		75,900
Income tax expense (Note 4(17))	(	464,671)	(	417,924)	(	14,347)
Consolidated net income	\$	1,331,454	\$	1,793,034	\$	61,553
Attributable to:						
Equity holders of the Company	\$	1,396,971	\$	1,734,415	\$	59,541
Minority interest	(	65,517)		58,619		2,012
	\$	1,331,454	\$	1,793,034	\$	61,553
		<u>Before tax</u>		<u>After tax</u>		<u>Before tax</u>
				<u>After tax</u>		<u>After tax</u>
Basic earnings per share (Note 4(19))						
Consolidated net income	\$	3.92	\$	2.90	\$	0.17
Minority interest		0.07	(	0.15)	(	0.13)
Net income attributable to equity holders of the Company	\$	3.99	\$	3.05	\$	0.15
Diluted earnings per share (Note 4(19))						
Consolidated net income	\$	3.66	\$	2.72	\$	0.16
Minority interest		0.06	(	0.13)	(	0.12)
Net income attributable to equity holders of the Company	\$	3.72	\$	2.85	\$	0.14

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated April 25, 2011.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS)

	Common stock	Stock subscriptions received in advance	Capital reserve				Retained earnings		Cumulative translation adjustments	Unrealized gain or loss on financial instrument	Minority interest	Total
			Paid-in capital in excess of par value of common stock	Additional paid-in capital - treasury stock transactions	Capital reserve from long-term investments	Capital reserve from stock options	Legal reserve	Unappropriated earnings				
2009 - New Taiwan Dollars												
Balance at January 1, 2009	\$ 4,374,609	\$ -	\$ 6,681,441	\$ 3,065	\$ 157,593	619,386	\$ 1,064,045	\$ 4,473,389	\$ 636,122	\$ -	\$ 567,033	\$ 18,576,683
Appropriations of 2008 income:												
Legal reserve	-	-	-	-	-	-	189,531	(189,531)	-	-	-	-
Stock dividends	87,492	-	-	-	-	-	-	(87,492)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(1,224,890)	-	-	-	(1,224,890)
Adjustment due to change in ownership of investee	-	-	-	-	(99,803)	-	-	-	-	-	-	(99,803)
Net income for 2009	-	-	-	-	-	-	-	1,396,971	-	-	(65,517)	1,331,454
Employees' stock bonus	77,554	-	270,663	-	-	-	-	-	-	-	-	348,217
Employee stock option	-	6,809	31,118	-	-	-	-	-	-	-	-	37,927
Cumulative translation adjustments	-	-	-	-	-	-	-	-	(115,460)	-	-	(115,460)
Put options exercised	-	-	210,488	-	-	(210,488)	-	-	-	-	-	-
Minority interest adjustments	-	-	-	-	-	-	-	-	-	-	145,217	145,217
Balance at December 31, 2009	\$ 4,539,655	\$ 6,809	\$ 7,193,710	\$ 3,065	\$ 57,790	\$ 408,898	\$ 1,253,576	\$ 4,368,447	\$ 520,662	\$ -	\$ 646,733	\$ 18,999,345
2010 - New Taiwan Dollars												
Balance at January 1, 2010	\$ 4,539,655	\$ 6,809	\$ 7,193,710	\$ 3,065	\$ 57,790	\$ 408,898	\$ 1,253,576	\$ 4,368,447	\$ 520,662	\$ -	\$ 646,733	\$ 18,999,345
Appropriations of 2009 income:												
Legal reserve	-	-	-	-	-	-	139,697	(139,697)	-	-	-	-
Stock dividends	45,680	-	-	-	-	-	-	(45,680)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(1,096,322)	-	-	-	(1,096,322)
Adjustment due to change in ownership of investee	-	-	-	-	33,999	-	-	-	-	-	-	33,999
Advance receipts for common stock transferred	6,809	(6,809)	-	-	-	-	-	-	-	-	-	-
Net income for 2010	-	-	-	-	-	-	-	1,734,415	-	-	58,619	1,793,034
Employees' stock bonus	21,407	-	78,006	-	-	-	-	-	-	-	-	99,413
Employee stock option	30,256	-	135,568	-	-	-	-	-	-	-	-	165,824
Cumulative translation adjustments	-	-	-	-	-	-	-	-	(546,189)	-	-	(546,189)
Put options exercised	-	-	295,174	-	-	(295,174)	-	-	-	-	-	-
Unrealized gain or loss on financial instrument	-	-	-	-	-	-	-	-	-	856,512	-	856,512
Minority interest adjustments	-	-	-	-	-	-	-	-	-	-	172,626	172,626
Balance at December 31, 2010	\$ 4,643,807	\$ -	\$ 7,702,458	\$ 3,065	\$ 91,789	\$ 113,724	\$ 1,393,273	\$ 4,821,163	\$ 25,527	\$ 856,512	\$ 877,978	\$ 20,478,242

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CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS)

	Common stock	Stock subscriptions received in advance	Capital reserve			Retained earnings			Cumulative translation adjustments	Unrealized gain or loss on financial instrument	Minority interest	Total
			Paid-in capital in excess of par value of common stock	Additional paid-in capital - treasury stock transactions	Capital reserve from long-term investments	Capital reserve from stock options	Legal reserve	Unappropriated earnings				
2010 - United States Dollars (Unaudited) (Note 2)												
Balance at January 1, 2010	\$ 155,841	\$ 234	\$ 246,952	\$ 105	\$ 1,984	\$ 14,037	\$ 43,033	\$ 149,964	\$ 17,874	\$ -	\$ 22,202	\$ 652,226
Appropriations of 2009 income:												
Legal reserve	-	-	-	-	-	-	4,796	(4,796)	-	-	-	-
Stock dividends	1,568	-	-	-	-	-	-	(1,568)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(37,636)	-	-	(37,636)	-
Adjustment due to change in ownership of investee	-	-	-	-	1,167	-	-	-	-	-	-	1,167
Advance receipts for common stock transferred	234	(234)	-	-	-	-	-	-	-	-	-	-
Net income for 2010	-	-	-	-	-	-	-	59,541	-	-	2,012	61,553
Employees' stock bonus	735	-	2,678	-	-	-	-	-	-	-	-	3,413
Employee stock option	1,039	-	4,654	-	-	-	-	-	-	-	-	5,693
Cumulative translation adjustments	-	-	-	-	-	-	-	(18,750)	-	(18,750)	-	-
Put options exercised	-	-	10,133	-	-	(10,133)	-	-	-	-	-	-
Unrealized gain or loss on financial instrument	-	-	-	-	-	-	-	-	-	29,403	-	29,403
Minority interest adjustments	-	-	-	-	-	-	-	-	-	-	5,926	5,926
Balance at December 31, 2010	\$ 159,417	\$ -	\$ 264,417	\$ 105	\$ 3,151	\$ 3,904	\$ 47,829	\$ 165,505	(\$ 876)	\$ 29,403	\$ 30,140	\$ 702,995

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated April 25, 2011.

CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS)

	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited) (Note 2)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Consolidated net income	\$ 1,331,454	\$ 1,793,034	\$ 61,553
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Provision for bad debts	738	26,220	900
Recognition of write-off of allowance for doubtful accounts as other income	(87,391)	(39,571)	(1,358)
(Reversal) recognition of provision for inventory obsolescence and market price declines	(122,791)	105,728	3,629
Loss on disposal of inventory	3,340	86,475	2,969
Gain on disposal of financial assets carried at cost	-	(347,165)	(11,918)
Investment (income) loss accounted for under the equity method	(108,115)	42,637	1,464
Cash dividends received	61,710	95,755	3,287
Depreciation	2,096,690	2,349,799	80,666
Loss on disposal of property, plant and equipment	45,295	29,742	1,021
Impairment loss	56,548	18,680	641
Amortization	95,693	112,131	3,849
Gain on valuation of financial assets and liabilities	(106,574)	(68,792)	(2,362)
Amortization of discount of cost of convertible bonds	117,162	69,825	2,397
Loss on redemption of convertible bonds	86,762	64,421	2,212
Changes in assets and liabilities			-
Financial assets at fair value through profit or loss - current	(427,000)	460,690	15,815
Notes receivable	(21,016)	10,833	372
Accounts receivable	(1,839,027)	(5,593,118)	(192,005)
Accounts receivable - related parties	2,258,460	(39,571)	(1,358)
Other receivables	(274,110)	(117,034)	(4,018)
Other receivables - related parties	(43,369)	(174,198)	(5,980)
Inventories	1,737,543	(3,425,582)	(117,596)
Prepaid expenses and prepayments	96,339	(257,421)	(8,837)
Deferred income tax assets	103,778	14,792	508
Notes payable	29,540	14,702	505
Accounts payable	(269,496)	3,938,525	135,205
Accounts payable - related parties	43,244	526,357	18,069
Income tax payable	32,020	149,782	5,142
Accrued expenses	214,931	1,050,471	36,061
Other payables	(162,728)	(59,727)	(2,050)
Receipts in advance	(96,487)	203,292	6,979
Accrued pension liabilities	13,373	17,466	599
Other liabilities - other	10,284	32,548	1,117
Other assets - other	72,591	21,384	734
Net cash provided by operating activities	<u>4,949,391</u>	<u>1,113,110</u>	<u>38,212</u>

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CHENG UEI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS)

	2009	2010	2010
	New Taiwan Dollars	New Taiwan Dollars	US Dollars
			(Unaudited)
			(Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial liabilities at fair value through profit or loss - current	(\$ 2,867)	\$ 4,692	\$ 161
Increase in refundable deposits	(30,366)	(100,651)	(3,455)
Decrease in other financial assets - current	35,110	71,143	2,442
Increase in financial assets carried at cost - non current	(187,432)	-	-
Proceeds from disposal of financial assets carried at cost	-	381,474	13,096
Increase in long-term investments - non-subsidiary	(329,571)	(677,141)	(23,246)
Increase in long-term investments - subsidiary	-	(856,841)	(29,414)
Acquisition of property, plant and equipment	(2,593,274)	(3,562,135)	(122,284)
Proceeds from disposal of property, plant and equipment	40,864	26,676	916
Increase in deferred assets and other intangible assets	(70,723)	(119,647)	(4,108)
Proceeds from disposal of deferred expenses	3,312	-	-
Net cash used in investing activities	(3,134,947)	(4,832,430)	(165,892)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in short-term loans	(581,693)	5,015,314	172,170
Increase in notes and bills payable	29,965	(29,967)	(1,029)
Increase in long-term loans	1,517,186	3,143,259	107,904
Decrease in long-term loans	(371,771)	(214,172)	(7,352)
Redemption of convertible bonds	(1,686,700)	(2,365,300)	(81,198)
Capital reserve from employee stock warrants	37,926	165,824	5,692
Payment of cash dividends	(1,224,890)	(1,096,322)	(37,635)
Increase in minority interest	(401,774)	(188,886)	(6,484)
Net cash used in financing activities	(2,681,751)	4,429,750	152,068
Effect of change in exchange rates	(85,863)	215,206	7,388
Effect of change in consolidated subsidiaries	126,804	7,776	267
Net decrease in cash	(826,366)	933,412	32,043
Beginning balance of cash	5,647,969	4,821,603	165,520
Ending balance of cash	\$ 4,821,603	\$ 5,755,015	\$ 197,563
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest (Excluding interest capitalized)	\$ 141,087	\$ 146,295	\$ 5,022
Cash paid for income tax	\$ 318,001	\$ 249,281	\$ 8,558
INVESTING AND FINANCING ACTIVITIES WITH NO EFFECTS ON CASH FLOWS			
Employees' stock bonus	\$ 348,217	\$ 99,413	\$ 3,413
Long-term liabilities - current portion	\$ 3,427,383	\$ 1,040,862	\$ 35,732
Partial cash flows from investing and financing activities:			
Acquisition of property, plant and equipment	\$ 2,537,588	\$ 3,674,076	\$ 126,127
Add: Beginning balance of other payables	458,838	403,152	13,840
Less: Ending balance of other payables	(403,152)	(515,093)	(17,683)
Cash paid	\$ 2,593,274	\$ 3,562,135	\$ 122,284

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated April 25, 2011.

CHENG UEI PRECISION INDUSTRY CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2010
(EXPRESSED IN THOUSANDS OF DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

1) Cheng Uei Precision Industry Co., Ltd.

Cheng Uei Precision Industry Co., Ltd. (the "Company") was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) on July 14, 1986. The Company engages in the manufacture of cable assemblies, connectors, battery packs, and power modules. Effective September 1999, the shares of the Company were listed on the Taiwan Stock Exchange. As of December 31, 2010, the Company and its subsidiaries had approximately 54,000 employees.

2) Subsidiaries included in the consolidated financial statements and their changes

Investor	Subsidiary	Main activity	% of shares held as of December 31,		Description
			2009	2010	
The Company	Cu International Ltd. (Cu)	Manufacture of electronic telecommunication components and holding company	100%	100%	
"	Culink International Ltd. (Culink)	General investments holding	100%	100%	
"	Foxlink International Investment Ltd. (FII)	Holding company	100%	100%	
"	Fu Uei International Investment Ltd. (FUII)	"	100%	100%	
"	Darts Technologies Corporation (Darts)	Manufacture of electronic telecommunication and wireless components	97%	97%	
"	Foxlink (Vietnam) Inc.	Manufacture of electronic telecommunication components	100%	100%	
"	Du Precision Industry Co., Ltd. (Du Precision)	"	100%	60%	
"	Foxlink Technology Ltd. (Foxlink Tech)	Holding company	100%	-	Note 1
Cu	Fu Gang Electronics (Dong Guan) Ltd. (FGEDG)	Manufacture of electronic telecommunication components	100%	100%	

Investor	Subsidiary	Main activity	% of shares held as of December 31,		Description
			2009	2010	
Cu	New Star Industries Ltd. (New Star)	Holding company	100%	100%	
"	Fu Gang Electronics (Kun Shan) Ltd. (FGEKS)	Manufacture of electronic telecommunication components	100%	100%	
"	Dong Guan Fu Shi Chang Co., Ltd. (FSC)	"	100%	100%	
"	Foxlink Electronics (Dong Guan) Co., Ltd. (FEDG)	"	100%	100%	
"	Foxlink Electronics (Tian Jin) Ltd. (FETJ)	"	25%	25%	Note 2
"	Dong Guan Fu Qiang Electronics Ltd. (DGFQ)	"	100%	100%	
"	Fu Yang Electronics (Kun Shan) (FYEKS)	"	100%	100%	
"	Foxlink Beijing Co., Ltd. (FB)	Sales agent	100%	100%	
"	Neosonic Energy Technology (Tianjin) Ltd. (NE)	Manufacture of electronic telecommunication components	100%	100%	
"	Kunshan Fushijing Electronics Co., Ltd. (KFE)	"	100%	100%	
"	Future Victory Ltd.	Holding company	100%	100%	
"	Solteras Limited	General investments holding	100%	100%	
"	Fushiming Electronics (Kun Shan) Co. Ltd.	Manufacture of electronic telecommunication components	100%	100%	
"	Fushilin Electronics (Kun Shan) Co., Ltd.	"	100%	100%	
"	Fushiwei Electronics (Kun Shan) Co., Ltd.	"	100%	100%	
"	Funshipeng Electronics (Kun Shan) Co., Ltd.	"	100%	100%	
"	Fushineng Electronics (Kun Shan) Co., Ltd.	"	100%	100%	
"	Fu shi Xiang Research & Development Center (Kun SHAN) Co., Ltd.	"	-	100%	Note 1
"	Fu Gang Electronics (Nan Chang) Co., Ltd. (FENC)	"	-	100%	Note 1
New Star	Fu Gang Electronics (Tian Jin) Ltd. (FGETJ)	"	100%	100%	

Investor	Subsidiary	Main activity	% of shares held as of December 31,		Description
			2009	2010	
New Star	Foxlink Tianjin Co., Ltd. (Foxlink Tianjin)	Manufacture of electronic telecommunication components	75%	75%	Note 2
"	Solteras Inc. (Solteras)	"	51%	51%	Note 3
FGETJ	Shang Hai World Circuit Technology Co., Ltd. (SHWCT)	"	46.93%	46.93%	
Culink	Foxlink Singapore Pte. Ltd. (Foxlink Singapore)	Sales agent	99.99%	99.99%	
"	Pacific Wealth Limited (Pacific Wealth)	General investments holding	100%	100%	
Pacific Wealth	Foxlink International Inc. (Foxlink)	Sales agent	100%	100%	
"	Microlink International Inc. (Microlink)	"	100%	100%	
FII	Vegamedia Technology Co., Ltd. (VT)	Manufacture of electronic telecommunication components	100%	100%	
"	World Circuit Technology Co., Ltd. (WCT)	Manufacture of electronic telecommunication components and flexible printed circuit	69.56%	69.56%	
"	Proconn Technology Co., Ltd. (PROCONN)	Manufacture of electronic telecommunication components	50.03%	50.03%	Note 5
"	Glory Science	"	-	37.31%	Notes 1 and 6
WCT	Value Success Ltd. (VS)	Holding company	100%	100%	
VS	Capital Guardian Limited (Capital)	"	100%	100%	
Capital	World Circuit Technology (Hong Kong) Limited (WCTHK)	"	-	100%	Note 4
WCTHK	Shang Hai World Circuit Technology Co., Ltd. (SHWCT)	Manufacture of electronic telecommunication components	53.07%	53.07%	
Darts	BENEFIT RIGHT LTD. (BENEFIT)	Holding company	100%	100%	
FV	Darts Technologies (Shang Hai) Co., Ltd. (DTSH)	Research and development of telecommunication components	100%	100%	
Du Precision	Celink International Ltd. (CELINK)	Manufacture of electronic telecommunication components	100%	100%	
Solteras Limited	Solteras Inc.	"	49%	49%	Note 3

Investor	Subsidiary	Main activity	% of shares held as of December 31,		Description
			2009	2010	
FUII	Glory Science Co., Ltd. (Glory Science)	Manufacture of electronic telecommunication components	21.70%	13.60%	Note 6
"	Sollink Inc. (Sollink)	"	100%	100%	
"	Studio A Inc. (Studio)	"	51%	51%	Note 7
"	Va Product Inc.	"	51%	51%	Note 7
"	Valiant Plus Co., Ltd. (Valiant)	"	51%	51%	Note 8
"	Proconn Technology Co., Ltd. (PROCONN)	"	1.30%	1.30%	Note 5
"	Zhi De Investment Co., Ltd.	General investments holding	-	100%	Note 1
PROCONN	Advance Electronic Ltd. (Advance Electronic)	"	100%	100%	
"	Byford International Ltd. (BYFORD)	General international trade	100%	100%	
"	Media Universe Inc. (Media Universe)	"	100%	100%	
Studio A Inc.	Tayih Digital Technology Co., Ltd. (TAYIH)	Manufacture of electronic telecommunication components	60%	40%	
"	Jing Sheng Technology Co., Ltd.	"	100%	100%	
"	Growing Computer Ltd.	"	100%	100%	
"	Studio A Inc. (Hong Kong)	"	-	100%	Note 1
"	Macgate Co., Ltd. (MACGATE)	"	-	51%	Note 1
"	Jing Jing Technology Co., Ltd. (Jing Jing)	"	-	100%	Note 1
Glory Science Co., Ltd.	Glory Tek (BVI) Co., Ltd. (Glory Tek (BVI))	General investments holding	100%	100%	
Glory Tek (BVI)	Glory Tek (Samoa) Co., Ltd. (Glory Tek Samoa)	"	100%	100%	
"	Glory Optics (BVI) Co., Ltd. (Glory Optics (BVI))	"	100%	100%	
Glory Tek (Samoa)	Glory Tek (Suzhou) Ltd.	Manufacture of electronic telecommunication components	100%	100%	
Advance Electronic	Proconn Technology Co., Ltd. (PROCONN)	General investments holding	100%	100%	
"	Smart Technology International Ltd. (SMART)	"	100%	100%	

Investor	Subsidiary	Main activity	% of shares held as of December 31,		Description
			2009	2010	
PROCONN	Proconn Technology (Shenzhen) Co., Ltd.	Manufacture of electronic telecommunication components	100%	100%	
SMART	Proconn Technology (Suzhou) Co., Ltd.	"	100%	100%	
FGEKS	Kunshan Fugang Electronics Trading Co., Ltd.	"	-	100%	Note 1

Note 1: Investment or incorporation began in 2010.

Note 2 Cu and New Star, the two subsidiaries' consolidated equity holding is 100%.

Note 3 New Star and Solteras Limited's consolidated equity holding is 100%.

Note 4: Subsidiary - World Circuit Technology Holding Limited sold its shares of World Circuit Technology Limited to CAPITAL in 2009.

Note 5: Foxlink Investment Ltd.'s and Fu Uei Investment Ltd.'s (subsidiaries) consolidated stock ownership percentage was 51.33%.

Note 6: As of December 31, 2010, Foxlink Investment Ltd.'s and Fu Uen Investment Ltd's (subsidiaries) consolidated stock ownership percentage was 50.91%.

Note 7: As the amounts of the subsidiary's financial statements were insignificant to the Company's consolidated financial statements, the subsidiary was included in the consolidated financial statements based on its financial statements for the corresponding periods in 2009, which were not audited by independent auditors.

Note 8: As the amounts of the subsidiary's financial statements were insignificant to the Company's consolidated financial statements, the subsidiary was included in the consolidated financial statements based on its financial statements for the corresponding periods in 2010, which were not audited by independent auditors.

3) The Company does not have over 50% of the voting rights of the subsidiaries in direct or indirect way but still regard it as the subsidiary:

Investor	Subsidiary	Main activity	% of shares held as of December 31,		Description
			2009	2010	
FUII & FII	Glory Science	Manufacture of electronic telecommunication components	21.70%	50.91%	Note 1
CU	Fox-E Holding Co., (FOX-E)	Holding company	33.33%	33.33%	Noet 2

Note 1: As the general manager of the subsidiary was designated by the Company, the Company had control over it.

Note 2: The income (loss) for 2009 was excluded from the consolidated statement of income effective July 1, 2009 as the Company had lost control over the subsidiaries during that year.

4) Subsidiaries not included in the consolidated financial statements:

<u>Investor</u>	<u>Main activity</u>	<u>% of shares held as of December 31,</u>		<u>Description</u>
		<u>2009</u>	<u>2010</u>	
Everflow Precision Industrial Co., Ltd. (Everflow)	Manufacture of electronic telecommunication components	75.00%	75.00%	Note

Note: The ratio of total assets to the Company's total assets was insignificant, and it was approved by the Ministry of Economics on October 5, 2004 to dissolve and is currently undergoing liquidation procedures. Thus, the ratio of total assets was not included in the consolidated financial statements.

- 5) Difference in accounting period of the parent company and the subsidiaries : None.
- 6) Special operating risk of foreign subsidiaries : None.
- 7) Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company : None.
- 8) Information about subsidiaries holding the parent company's securities : None.
- 9) Information about subsidiaries' issuance of convertible bonds and stocks :

Foxlink Investment Ltd., Fu Uei Investment Ltd., Foxlink Tech, Gloary Science, CU, Dong Guan Fu Shi Change Co., Ltd., Fu Yang Electronics (Kun Shan) Ltd., Fushineng (Kun Shan), Fu Shi Ziang (Kun Shan) and Fu Gang Electronics (Nan Chang) Co., Ltd. increased cash capital by \$580,000 thousand, \$750,000 thousand, HKD\$86,700 thousand, \$300,000 thousand, US\$14,500 thousand US\$1,500 thousand, US\$9,000 thousand, US\$10,200 thousand, US\$4,500 thousand and US\$5,000 thousand, respectively, in 2010, which were all subscribed for by the Company directly or indirectly.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China. The Group's significant accounting policies are summarized below:

1) Basis for preparation of consolidated financial statements

All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. The Company prepares consolidated financial statements on a quarterly basis. The income (loss) of the subsidiaries is included in the consolidated statement of income effective on the date the Company gains control over the subsidiaries.

The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the Company loses control over the subsidiaries. All of the intercompany transactions and assets and liabilities arising from intercompany transactions are eliminated in the consolidated financial statements.

2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which is carried forward from prior year's balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in "cumulative translation adjustments" under stockholders' equity.

3) Foreign currency transactions

- A. The Company and its consolidated subsidiaries maintain their accounts in New Taiwan dollars and their functional currencies, respectively. Transactions denominated in foreign currencies are translated into New Taiwan dollars and their functional currencies at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year's profit or loss.
- B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
 - b) Assets held mainly for trading purposes;
 - c) Assets that are expected to be realized within twelve months from the balance sheet date; and
 - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;

- b) Liabilities arising mainly from trading activities;
- c) Liabilities that are to be paid off within twelve months from the balance sheet date; and
- d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

5) Financial assets and financial liabilities at fair value through profit or loss

- A. Equity and beneficiary certificates are recognized and derecognized using trade date accounting and are recognized initially at fair value.
- B. Financial assets at fair value through profit or loss are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks, closed-end mutual funds, and depositary receipts is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.
- C. Derivative instruments that do not qualify for hedge accounting are recognized at a fair value of zero on the trading date. At the balance sheet date, instruments are revalued at fair value. Changes in the fair value are recognized in profit or loss and as adjustments to the carrying amounts of assets and liabilities.
- D. For call options and put options which are embedded in bonds payable, please refer to Note 4 (11).

6) Available-for-sale financial assets

- A. Available-for-sale financial assets are recognized and derecognized using trade date accounting and are initially stated at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- B. The financial assets are remeasured and stated at fair value, and the gain or loss is recognized in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds are based on latest quoted fair prices of the accounting period. The fair values of open-end and balanced mutual funds are based on the net asset value at the balance sheet date.
- C. If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be transferred from equity to profit or loss. When the fair value of an equity instrument subsequently increases, impairment losses recognized previously in profit or loss shall not be reversed. When the fair value of a debt instrument subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss recognized in profit or loss.

7) Allowance for doubtful accounts

Allowance for doubtful accounts is provided according to the evaluation of the collectibility

of the ending balances of notes, accounts and other receivables.

8) Inventories

Inventories are recorded at standard costs. The difference between standard costs and actual costs is allocated to operating costs and inventories on a proportional basis at end of period. Such allocation reflects actual costs using the weighted-average method. Fixed manufacturing overhead is allocated on the basis of the normal capacity of the production equipment. If production fluctuates over interim periods, the cost variances resulting from such fluctuation are deferred in the interim financial statements. At end of period, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value is based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses.

9) Long-term investments accounted for under the equity method

- A. Long-term equity investments in which the Group holds at least 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is subject to impairment test periodically. Retrospective adjustment of the amount of goodwill amortized in previous years is not required. All majority-owned subsidiaries and controlled entities are accounted for under the equity method and included in the consolidated annual and semi-annual financial statements.
- B. When the Group's proportionate equity interest in any investee changes due to issuance of common shares by the investee, the variance between the investment cost and the Group's proportionate share of the net assets of the investee is adjusted to capital reserve. If the capital reserve arising from long-term investment is not sufficient, retained earnings is debited.
- C. For foreign investments accounted for under the equity method, the Group's proportionate share of the foreign investee's cumulative translation adjustment resulting from translating the foreign investee's financial statements into New Taiwan dollars is recognized by the Group and is included in a cumulative translation adjustments account in the shareholders' equity.

10) Property, plant and equipment / rental assets

- A. Property, plant and equipment are stated at cost. Cost includes all expenditures incurred before the assets are ready for their intended use. Major improvements and renewals are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred.
- B. When fixed assets are sold or scrapped, their cost and accumulated depreciation are both written off from their respective accounts. Gain (loss) on disposal of such assets is

recognized in current profit or loss.

- C. Depreciation is provided under the straight-line method based on the assets' estimated economic service lives. Salvage value of the fully depreciated assets that are still in use is depreciated based on the re-estimated economic service lives. The estimated economic service lives of property, plant and equipment are 50 to 60 years except for buildings, the estimated economic service life of which is 2 to 8 years.
- D. Fixed assets that are not used in operations are reclassified as rental / idle assets and stated at the lower of book value or net realizable value. Depreciation of these assets is shown under non – operating expenses.

11) Intangible assets

- A. Computer software expenditures are stated at cost and amortized over the estimated life of 3 years using the straight-line method.
- B. Other intangible assets, mainly land use rights, are amortized over the legal life or contract life.

12) Impairment of non-financial assets

- A. The Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.
- B. The recoverable amount of goodwill, intangible assets with indefinite useful lives and intangible assets which have not yet been available for use shall be evaluated periodically. Impairment loss will be recognized whenever there is indication that the recoverable amount of these assets is less than their respective carrying amount. Impairment loss of goodwill recognized in prior years is not recoverable in the following years.

13) Pension plan

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 15 years. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

14) Convertible bonds

- A. For bonds payable issued after January 1, 2006, the issuer of a financial instrument shall

classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. These bonds are accounted for as follows:

- (A) The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the interest method and is recorded as “interest expense”.
 - (B) The value of any derivative features (such as a call option, put option and resetting option) embedded in the compound financial instrument is recognized as “financial assets or financial liabilities at fair value through profit or loss”. These derivative features are subsequently remeasured and stated at fair value on each balance sheet date, and the gain or loss is recognized in “gain or loss on valuation of financial assets or financial liabilities”. At the maturity of the redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the put option is recognized as “paid-in capital”; however, if the fair value of common stock is lower than the redemption price, the fair value of the put option is recognized as “gain or loss”. The amount of fair value reduction due to the reset of conversion price was reclassified to “stockholders’ equity”.
 - (C) A conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized and included in “capital reserve from stock warrants”. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued at fair value on the conversion date, and the resulting difference shall be recognized as “gain or loss” in the current period. The book value of the common stock issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of the stock warrants.
 - (D) Cost incurred on issuance of convertible bonds is proportionately charged to the liabilities and equity of the underlying instruments based on initial recognition costs.
- B. In the event that the bondholders may exercise put options within the following year, the underlying bonds payable shall be reclassified to current liabilities. Bonds payable whose put options are unexercised during the exercisable period shall be reversed to non-current liabilities.

15) Income tax

- A. Inter-period and intra-period income taxes are allocated in accordance with the R.O.C. SFAS No. 22, “Accounting for Income Taxes”.
- B. In accordance with R.O.C. SFAS No. 12, “Accounting for Investment Tax Credits”,

investment tax credits resulting from expenditures for acquisition of machinery or technology, research and development, employees' trainings, and equity investments are recognized in the period the related expenditures are incurred.

- C. Over or under provision of previous years' income tax liabilities is included in current period's income tax.
- D. The additional 10% tax on the undistributed earnings is recorded as tax expense in the period the stockholders resolve to retain the earnings.
- E. When a change in the tax laws is enacted, the deferred tax liability or asset is recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, is recognized as an adjustment to current income tax expense (benefit).

16) Share-based payment - employee compensation plan

The employee stock options granted from January 1, 2004 through December 31, 2007 are accounted for in accordance with EITF 92-070, EITF 92-071 and EITF 92-072 "Accounting for Employee Stock Options", prescribed by the R.O.C. Accounting Research and Development Foundation. Under the share-based employee compensation plan, compensation cost is recognized using the intrinsic value method and pro forma disclosures of net income and earnings per share are prepared in accordance with the R.O.C. SFAS No. 39, "Accounting for Share-based Payment".

17) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and the amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, "Criteria for Listed Companies in Calculating the Number of Shares of Employees' Stock Bonus", the Company calculates the number of shares of employees' stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders' meeting held in the year following the financial reporting year, after taking into account the effects of ex-rights and ex-dividends.

18) Revenues and expenses

Revenues are recognized when the earning process is substantially completed and they are realized or realizable. Costs and expenses are recognized as incurred.

19) Earnings per share

- A. Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period after taking into consideration the retroactive effect of stock dividends and capital reserve capitalized.
- B. Basic and diluted earnings per share are disclosed if there are potential common stocks resulting from issuance of convertible bonds and employee stock options.

20) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

21) Convenience translation into US dollars

The Group maintains its accounting records and prepares its financial statements in New Taiwan dollars. The United States dollar amounts disclosed in the financial statements as of and for the year ended December 31, 2010 are presented solely for the convenience of the reader and were translated to US dollars using the average of buying and selling exchange rates of US\$1.00 (in dollar): NT\$29.13 (in dollars) at December 31, 2010. Such translation amounts are unaudited and should not be construed as representations that the New Taiwan dollar amounts represent, have been, or could be converted into United States dollars at that or any other rate.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Inventories

Effective January 1, 2009, the Group adopted the amendments to R.O.C. SFAS No. 10, "Accounting for Inventories". As a result of this change in accounting principle, operating costs and non-operating revenue associated with inventories decreased by \$265,711 (US\$9,122) and \$426,680 (US\$14,647), respectively for the year ended December 31, 2009. Further, net income decreased by \$128,775 (US\$4,421) and earnings per share decreased by \$0.28 for the year ended December 31, 2009.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Cash on hand	\$ 10,641	\$ 12,049	\$ 414
Checking accounts	5,279	129,134	4,433
Demand deposits	2,727,221	4,428,912	152,040
Time deposits	2,078,462	1,184,920	40,676
	<u>\$ 4,821,603</u>	<u>\$ 5,755,015</u>	<u>\$ 197,563</u>

2) Financial assets at fair value through profit or loss

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Financial assets held for trading			
Beneficiary certificates - fund	\$ 433,030	\$ 6,030	\$ 207
Derivative financial assets	4,692	68,134	2,339
Convertible bonds	39,720	6,432	221
	<u>\$ 477,442</u>	<u>\$ 80,596</u>	<u>\$ 2,767</u>
Financial liability held for trading			
Corporate bonds	\$ 3,982	\$ 2,744	\$ 94

The trading characteristics and contract information of the derivative financial assets are as follows:

	December 31, 2009			December 31, 2010		
	Contract Amount	Contract Period		Contract Amount	Contract Period	
Forward exchange contracts	USD 43,000	2010/01~2010/03		USD 76,000	2011/01~2011/04	

3) Accounts receivable

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Accounts receivable	\$ 8,950,491	\$ 14,355,063	\$ 492,793
Less: Allowance for doubtful accounts	(276,951)	(303,171)	(10,407)
	<u>\$ 8,673,540</u>	<u>\$ 14,051,892</u>	<u>\$ 482,386</u>

4) Inventories

	December 31, 2010		
	Cost	Allowance	Book value
	New Taiwan Dollars		
Raw materials	\$ 4,174,230	(\$ 266,359)	\$ 3,907,871
Work in process	255,482	-	255,482
Finished goods	3,620,859	(231,552)	3,389,307
Inventory in transit	77,787	-	77,787
	<u>\$ 8,128,358</u>	<u>(\$ 497,911)</u>	<u>\$ 7,630,447</u>

	December 31, 2010		
	Cost	Allowance	Book value
	US Dollars		
	(Unaudited-Note 2)		
Raw materials	\$ 143,297	(\$ 9,144)	\$ 134,153
Work in process	8,771	-	8,771
Finished goods	124,300	(7,949)	116,351
Inventory in transit	2,670	-	2,670
	<u>\$ 279,038</u>	<u>(\$ 17,093)</u>	<u>\$ 261,945</u>

	December 31, 2009		
	Cost	Allowance	Book value
Raw materials	\$ 2,100,976	(\$ 157,579)	\$ 1,943,397
Work in process	123,219	-	123,219
Finished goods	2,765,500	(236,651)	2,528,849
Inventory in transit	75,593	-	75,593
	<u>\$ 5,065,288</u>	<u>(\$ 394,230)</u>	<u>\$ 4,671,058</u>

Expenses and losses incurred on inventories during the period:

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Cost of inventories sold	\$ 36,711,342	\$ 49,782,385	\$ 1,708,973
Loss on market price decline and gain from price recovery	(122,791)	105,728	3,629
Others	(142,920)	16,645	572
	<u>\$ 36,445,631</u>	<u>\$ 49,904,758</u>	<u>\$ 1,713,174</u>

5) Available-for-sale financial assets

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Overseas listed stocks	\$ -	\$ 176,820	\$ 6,070
Adjustment of available-for-sale financial assets	-	813,157	27,915
	<u>\$ -</u>	<u>\$ 989,977</u>	<u>\$ 33,985</u>

6) Long-term equity investments accounted for under the equity method

Investee	2010 ownership percentage (%)	December 31,		
		2009	2010	2010
		New Taiwan Dollars		US Dollars
				(Unaudited -Note 2)
<u>Equity method:</u>				
Foxlink Image Technology Co., Ltd.	30.63%	\$ 727,471	\$ 717,071	\$ 24,616
Well Shin Technology Co., Ltd.	20.52%	883,638	904,936	31,065
Microlink Communications Inc.	21.43%	41,063	25,672	881
Nesonic Lo-Polymer Energy Technology Corp.	37.00%	125,884	80,315	2,757
Sharetronic Digital Electronic (Shen Zhen) Co., Ltd.	27.00%	269,315	270,396	9,282
Power Quotient International Co., Ltd.	15.25%	-	433,052	14,866
Xie Xun Electronics (Ji An) Ltd.	25.00%	-	270,619	9,290
Sharetronic Precision Industry (Shen Zhen) Co., Ltd.	25.00%	-	94,548	3,246
Yu Dou Fu Xin Co., Ltd.	40.00%	-	1,768	62
		<u>\$ 2,047,371</u>	<u>\$ 2,798,377</u>	<u>\$ 96,065</u>

Investment (loss) income accounted for under the equity method of the years ended December 31, 2010 and 2009 was (\$42,637) and \$108,115, respectively. The investment income (loss) recognized for these investees was based on their financial statements for the corresponding periods, which were audited by independent auditors.

7) Property, plant and equipment

The details of accumulated depreciation were as follows:

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Buildings	\$ 581,005	\$ 681,841	\$ 23,407
Machinery and equipment	6,181,741	7,031,244	241,375
Transportation equipment	25,158	17,968	617
Office equipment	159,637	228,147	7,832
Leasehold improvements	31,948	31,650	1,087
Other equipment	1,632,460	1,714,694	58,863
	<u>\$ 8,611,949</u>	<u>\$ 9,705,544</u>	<u>\$ 333,181</u>

8) Goodwill

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Beginning balance	\$ -	\$ -	\$ -
Increase during the period	-	644,918	22,139
Ending balance	<u>\$ -</u>	<u>\$ 644,918</u>	<u>\$ 22,139</u>

In 2010, the Company's subsidiary acquired 100% stock ownership of Zhi De Investment Co., Ltd. and 51% stock ownership of Macgate Co., Ltd. in the amount of \$613,626 and \$152,420, respectively. The excess of the initial investment cost over the acquired net asset value of the identifiable assets was recognized as goodwill as shown above.

9) Short-term loans

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Unsecured loans	\$ 3,981,803	\$ 9,075,403	\$ 311,548
Secured loans	78,286	-	-
	<u>\$ 4,060,089</u>	<u>\$ 9,075,403</u>	<u>\$ 311,548</u>
Annual interest rates	<u>0.81%~7.56%</u>	<u>0.67%~5.50%</u>	

10) Accrued expenses

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Accrued conversion fee	\$ 543,601	\$ 840,093	\$ 28,839
Accrued salary and bonus	780,463	1,414,858	48,571
Accrued sales commission	100,181	207,153	7,111
Others	853,768	766,967	26,329
	<u>\$ 2,278,013</u>	<u>\$ 3,229,071</u>	<u>\$ 110,850</u>

11) Bonds payable

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Unsecured convertible bonds	\$ 5,000,000	\$ 5,000,000	\$ 171,644
Less: Amount repurchased	(36,700)	(36,700)	(1,260)
Amount of put options exercised	(1,686,700)	(4,052,000)	(139,100)
Discount on bonds payable	(151,312)	(16,083)	(552)
	3,125,288	895,217	30,732
Less: Current portion	(3,125,288)	(895,217)	(30,732)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A. On July 28, 2006, the Company issued its first unsecured convertible bonds. The major terms of the bonds are summarized below:

- (A) Principal amount: \$5,000,000
- (B) Issuance price: \$100
- (C) Coupon rate: 0%
- (D) Issue period: 5 years (October 9, 2006 to October 8, 2011)
- (E) Conversion period: November 9, 2006 to September 28, 2011
- (F) Conversion right:

The bonds are convertible into the Company's common shares at the conversion price in effect on the conversion date.

(G) Conversion price:

- a. The initial conversion price at issuance of the bonds is \$154.1 (in dollars) per share, which was calculated based on the following principle. On July 12, 2010, the conversion price was adjusted from \$91.7 (in dollars) per share to \$86.5 (in dollars) per share, as approved by the Board of Directors.
- b. The conversion price is subject to adjustment based on the prescribed formula upon the occurrence of certain events, including (i) distribution of stock dividends, (ii) distribution of cash dividends, (iii) distribution of employee bonus by issuing new shares, (iv) the issuance of shares due to cash infusion, (v) cash infusion for the issuance of global depository receipts, or (vi) other events set out in the trust deed that will have a dilutive effect on the bondholders' rights.
- c. In the event that the average closing price of the common shares for a period of 20 consecutive trading days is lower than or equal to 80% of the conversion price, the conversion price will be adjusted and reset at the lowest of the average closing price of the common shares of 1, 3 or 5 consecutive trading days prior to the next day of the last day of the underlying 20 consecutive trading days multiplied by the conversion premium rate of 110%. The adjusted conversion price shall be higher than the sampling basic price upon reset and not be less than 80% of the conversion price at issuance of the bonds.
- d. In the event that the average closing price of the common shares for a period of 20 consecutive trading days is higher than or equal to 120% of the conversion price, the conversion price will be adjusted and reset at the lowest of the average closing price of the common shares of 1, 3 or 5 consecutive trading days prior to the next day of the last day of the underlying 20 consecutive trading days multiplied by the conversion premium rate of 110%. The adjusted conversion price shall be higher than the sampling basic price upon reset and not be higher than 110% of the conversion price at issuance of the bonds.
- e. The effective interest rate of convertible bonds issued by the Company was 2.77%.

(H) Call option: The Company may purchase the outstanding bonds at face value within 30 trading days after the following events, provided that (i) the closing price of the shares for a period of 30 consecutive trading days is above 50% of the conversion price, or (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date of the bonds.

(I) Put option: The Company should redeem such bonds in the third year and fourth year after the issuance of convertible bonds at face value upon the request of the bondholders.

(J) Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.

B. The fair value of convertible option was separated from bonds payable, and was recognized in “capital reserve from stock warrants” in the amount of \$423,494 (US\$14,538) in accordance with ROC SFAS No. 36. In accordance with EITF 97-331 and EITF 98-046 of the R.O.C. Accounting Research and Development Foundation, the fair value reduction in the amount of \$199,000 due to the reset of conversion price was reclassified to “capital reserve from stock warrants” for the year ended December 31, 2007. The redemption of convertible bonds in the amount of \$3,108 was recognized in “capital reserve from stock warrants” for the year ended December 31, 2008, and the difference between book value and fair value of the bonds in the amount of \$3,065 was reclassified to “capital reserve-treasury stock transaction”. As the bondholders exercised put options in 2010 and 2009, an amount of \$295,174 and \$210,488 were reclassified from “capital reserve from stock warrants” to “capital reserve - additional paid-in capital in excess of par - common stock”. As of December 31, 2010 and 2009, respectively, the balance of “capital reserve from stock warrants” amounted to \$113,724 and \$408,898. The fair value of put and call options embedded in bonds payable was separated from bonds payable, and was recognized in “financial assets or liabilities at fair value through profit or loss” in the net amount of \$2,744 (US\$94) in accordance with SFAS No. 34. The Company recognized net gain of \$256 and \$97,362 for the years ended December 31, 2010 and 2009, respectively, for the market value change of put and call options.

12) Long-term loans

		December 31,		
		2009	2010	2010
		New Taiwan Dollars		US Dollars
		(Unaudited -Note 2)		
Secured bank loans	Principal payable in lump sum at maturity on March 19, 2010	\$ 19,197	\$ -	\$ -
Unsecured bank loans	Payable in installments starting from September 2010 to December 2012	563,787	429,217	14,734
Medium-term and long-term syndicated loans	From March 2009 to March 2012	1,450,000	4,500,000	154,480
Bonds payable	Holder can carry out the put option from October 9, 2009	<u>3,125,288</u>	<u>895,217</u>	<u>30,732</u>
		5,158,272	5,824,434	199,946
Less: Current portion		(3,427,383)	(1,040,862)	(35,731)
		<u>\$ 1,730,889</u>	<u>\$ 4,783,572</u>	<u>\$ 164,215</u>
Annual interest rate		<u>0.89%~4.86%</u>	<u>1%~5.1%</u>	

On March 18, 2009, the Company entered into a three-year syndicated revolving credit facility agreement with 13 banks – Cathay United Bank as the lead bank - and obtained a credit line in the amount of \$4,800,000. The terms of agreement are summarized below:

- A. Duration of loan: three years from the contract date.
- B. Credit line and draw-down: credit line is revolving within \$4,800,000; each draw-down is required to be a minimum of \$100,000.
- C. Principal repayment: the duration of each loan drawn down is either 90 days or 180 days at the Company's option. The Company, if without any default, may submit an application to the banks to draw down a new loan with principal equal to the old one before its maturity, and the new loan is directly used to repay the original loan. Banks and the Company are not required to make remittances for such draw-down and repayment, which is viewed that the Company has received the new loan on the maturity of original loan.
- D. Commitment: the Company should maintain the following financial ratios during the contract duration for annual non-consolidated and consolidated financial statements and quarterly non-consolidated financial statements:
 - a) Current assets to current liabilities ratio of at least 1:1 effective from January 1, 2010;
 - b) Liabilities not exceeding 150% of tangible net equity;
 - c) Interest coverage of at least 400%; and
 - d) Tangible net equity of at least NT\$15,000,000,000.
 - e) The loan period is decided by the borrower. The borrower may choose to early repay the loans during the contract period according to the syndicated loan contract.

13) Retirement plan

A. The Company and its domestic subsidiaries have a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Trust Department of Bank of Taiwan, under the name of the independent retirement fund committee.

The following sets forth the pension information based on the actuarial report:

a) Actuarial assumptions

	December 31,	
	2010	2009
Discount rate	2.00% ~2.25%	1.75%
Effect of future salary increments	1.00% ~3.00%	3.00%
Expected return rate on plan assets	2.00% ~2.25%	1.75%

b) Funded status of the pension plan

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
Benefit obligation:			
Vested benefit obligation	(\$ 34,365)	(\$ 40,110)	(\$ 1,377)
Non-vested benefit obligation	(145,842)	(139,947)	(4,804)
Accumulated benefit obligation	(180,207)	(180,057)	(6,181)
Effect of future salary increments	(100,611)	(88,450)	(3,036)
Projected benefit obligation	(280,818)	(268,507)	(9,217)
Fair value of plan assets	58,650	53,837	1,848
Funded status	(222,168)	(214,670)	(7,369)
Unrecognized net transition obligation	1,415	278	10
Unrecognized prior service cost	20,976	17,888	614
Unrecognized gain or loss on plan assets	92,326	70,363	2,415
Adjustments to accrued pension liabilities	(15,416)	(78)	(3)
Under provision of prior year's income	(1,224)	-	-
Accrued pension liability	(\$ 124,091)	(\$ 126,219)	(\$ 4,333)
Vested benefit	\$ 41,017	\$ 45,888	\$ 1,575

c) Net pension cost comprises the following:

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
Service cost	\$ 6,841	\$ 5,988	\$ 206
Interest cost	7,045	6,176	212
Expected return on plan assets	(875)	(1,098)	(38)
Amortization of unrecognized net transition obligation	406	276	9
Amortization of unrecognized service cost	3,088	3,088	106
Amortization of unrecognized net gain on plan assets	4,257	4,340	149
Gain from contraction of pensions	(240)	-	-
Net periodic pension cost	<u>\$ 20,522</u>	<u>\$ 18,770</u>	<u>\$ 644</u>

B. Effective July 1, 2005, the Company and its domestic subsidiaries have established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act. Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable upon termination of employment. The pension costs under the defined contribution pension plan for the years ended December 31, 2010 and 2009 were \$57,707 and \$53,932, respectively.

C. Foxlink Singapore, Foxlink, Microlink, and the Company’s mainland subsidiaries have a funded defined contribution plan. Monthly contributions are based on the employees’ monthly salaries and wages to an independent fund administered by the government in accordance with the pension regulations.

14) Common stock

A. As of December 31, 2009 and 2010, the Company’s authorized common stock were \$5,500,000 (US\$188,809) and \$7,000,000 (US\$240,302), respectively (including 50,000,000 shares reserved for the issuance of employees’ warrants as of December 31, 2009 and 2010), and the issued and outstanding shares were 453,965,472 shares and 464,380,664 shares, respectively, with a par value of \$10 (in dollars) per share.

B. On June 14, 2010, the stockholders at their annual stockholders’ meeting adopted a resolution to capitalize unappropriated earnings of \$45,680 and employees’ bonus of \$99,413, with the effective date set on June 11, 2010. Employees’ stock bonus of 2,141,000 shares totaling \$99,413 was distributed at \$46.44 (in dollars) per share, which was decided based on the closing price, \$49.3 (in dollars) per share, of the Company’s

common stock at the previous day of the stockholders' meeting, dated June 11, 2010, and taking into account the effects of ex-rights and ex-dividends. A total of 6,709,000 shares of new stocks were issued for this capital increase. The capital increase was approved by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C. on June 29, 2010, with the effective date set on August 8, 2010 and had been registered on September 10, 2010.

15) Capital reserve

A. The R.O.C. Securities and Exchange Law requires that capital reserve shall be exclusively used to cover accumulated deficit or to increase capital and shall not be used for any other purpose.

B. Please see Note 4 (11) for detailed information of capital reserve from stock warrants.

16) Retained earnings

A. Based on the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder shall be appropriated as (a) 0.10% as remuneration to directors and supervisors; (b) at least 8% as bonus to employees, and (c) as dividends to stockholders.

B. According to the Company's Articles of Incorporation, no more than 90% of the distributable retained earnings shall be distributed as stockholders' bonus, of which a major portion is payable by shares and the balance by cash, which will be defined and approved during the stockholders' meeting. In general, cash dividend distributed in any calendar year shall be at least 20% of the total distributable earnings in that year.

C. The legal reserve can only be used to offset losses or to increase capital when the Company's accumulated legal reserve has reached 50% of its paid-in capital, and only one half of the legal reserve balance may be capitalized.

D. In accordance with the applicable laws and regulations, in addition to the appropriation for legal reserve and prior to distribution of earnings, the Company should set aside a special reserve from retained earnings equal to the net reduction of shareholders' equity as of the end of the current year, resulting from adjustments such as cumulative translation adjustments and unrealized losses on long-term investments.

E. The appropriation of June 10, 2009 and June 14, 2010 earnings had been resolved at the stockholders' meeting in 2008 and 2009, respectively. Details are summarized below:

	2008		2009	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
	New Taiwan Dollars		New Taiwan Dollars	
Legal reserve	\$ 189,531	\$ -	\$ 139,697	\$ -
Stock dividends	87,492	0.2	45,680	0.1
Cash dividends	1,224,890	2.8	1,096,322	2.4
Total	<u>\$ 1,501,913</u>	<u>\$ 3.0</u>	<u>\$ 1,281,699</u>	<u>\$ 2.5</u>

The actual distribution of 2009 earnings was stated in the previous paragraph. Employees' stock bonus of 2,141,000 shares were distributed at \$46.44 (in dollars) per share. The difference between employees' bonus of \$99,413 and directors' and supervisors' remuneration of \$1,243 for year 2009 as resolved by the stockholders and employees' bonus of \$98,944 and directors' and supervisors' remuneration of \$1,237 recognized in the 2009 financial statements amounted to \$475 had been adjusted in the statement of income of 2010. The resolutions in relation to the Company's distribution of earnings, which have been adopted by the Board of Directors and approved in the stockholders' meetings, are posted in the "Market Observation Post System" at the website of Taiwan Stock Exchange.

- F. The estimated amount of employees' bonus and directors' and supervisors' remuneration for the years ended December 31, 2009 and 2010 amounted to \$100,181 and \$200,000 (US\$6,866), respectively, based on a certain percentage (prescribed by the Company's Articles of Incorporation) of net income in 2009 and 2010 after taking into account the legal reserve and other factors, and are recognized as operating costs or operating expenses for 2009 and 2010. If, however, the estimated amounts differ from the amounts approved by the stockholders subsequently, the difference is recognized as gain or loss in the following year.

17) Income tax

A. Income tax expense and income tax payable are reconciled as follows:

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Income tax payable	\$ 364,239	\$ 514,021	\$ 17,646
Tax effect of change in income tax rate	11,246	12,954	444
Net change of deferred income tax assets and liabilities	92,532	1,838	63
Income tax payable at beginning of period	(177,539)	(246,246)	(8,453)
Under (over) provision of prior year's income tax	9,450	(24,351)	(836)
Prepaid income tax	<u>164,743</u>	<u>159,708</u>	<u>5,483</u>
	<u>\$ 464,671</u>	<u>\$ 417,924</u>	<u>\$ 14,347</u>
Current income tax expense	\$ 425,332	\$ 406,397	\$ 13,951
10% income tax on prior year's undistributed earnings	<u>39,339</u>	<u>11,527</u>	<u>396</u>
Income tax expense	<u>\$ 464,671</u>	<u>\$ 417,924</u>	<u>\$ 14,347</u>

B. The temporary differences and related amounts of deferred income tax assets (liabilities) were as follows:

	December 31,			
	2009		2010	
	Amount	Tax effect	Amount	Tax effect
	New Taiwan Dollars		New Taiwan Dollars	
Current-Deferred income tax assets:				
Allowance for doubtful accounts	\$ 155,579	\$ 31,116	\$ 144,212	\$ 24,516
Unrealized exchange loss	1,217	225	117,419	19,961
Allowance for inventory loss	217,388	43,468	270,736	46,025
Unrealized gain from intercompany transactions	16,779	3,356	5,277	897
Others	20,225	4,045	6,616	1,125
		<u>82,210</u>		<u>92,524</u>
Valuation allowance		-		(6,269)
		<u>\$ 82,210</u>		<u>\$ 86,255</u>
Non-Current-Deferred income tax assets:				
Foreign long-term investment loss accounted for under the equity method	\$ 511,380	\$ 102,276	\$ 982,991	\$ 167,108
Loss carryforwards	309,659	61,932	249,257	42,374
Others	24,250	5,089	19,500	3,321
Investment tax credits	-	14,460	-	14,409
		<u>183,757</u>		<u>227,212</u>
Valuation allowance		(176,663)		(177,070)
Cumulative translation adjustments		(7,094)		(5,414)
		<u>\$ -</u>		<u>\$ 44,728</u>
Non-current-Deferred income tax liabilities				
Foreign long-term investment income accounted for under the equity method	(\$ 339,892)	(\$ 67,978)	(\$ 757,503)	(\$ 128,777)
Pension expense	112,703	22,541	126,142	21,444
Loss carryforwards	3,580	716	1,719	292
		<u>(44,721)</u>		<u>(107,041)</u>
Valuation allowance		(716)		(291)
Cumulative translation adjustments		(130,167)		5,229
		<u>(\$ 175,604)</u>		<u>(\$ 102,103)</u>

	<u>December 31, 2010</u>	
	<u>Amount</u>	<u>Tax effect</u>
	<u>US Dollars</u>	
	(Unaudited-Note2)	
Current-Deferred income tax assets:		
Allowance for doubtful accounts	\$ 4,951	\$ 842
Unrealized exchange loss	4,031	685
Allowance for inventory loss	9,294	1,580
Unrealized gain from intercompany transactions	181	31
Others	227	<u>38</u>
		3,176
Valuation allowance		(<u>215</u>)
		<u>\$ 2,961</u>
Non-Current-Deferred income tax assets:		
Foreign long-term investment loss accounted for under the equity method	\$ 33,745	\$ 5,737
Loss carryforwards	8,557	1,455
Others	669	114
Investment tax credits	-	<u>494</u>
		7,800
Valuation allowance		(6,079)
Cumulative translation adjustments		(<u>186</u>)
		<u>\$ 1,535</u>
Non-current-Deferred income tax liabilities		
Foreign long-term investment income accounted for under the equity method	(\$ 26,004)	(\$ 4,421)
Pension expense	4,330	736
Loss carryforwards	59	<u>10</u>
		(3,675)
Valuation allowance		(10)
Cumulative translation adjustments		<u>180</u>
		<u>(\$ 3,505)</u>

C. As of December 31, 2009 and 2010, the balance of the imputation tax credit account was \$994,028 and \$886,351, respectively. The creditable tax rate was 25.27% for 2009 and is estimated to be 18.54% for 2010.

D. As of December 31, 2009 and 2010, the details of unappropriated retained earnings are as follows:

	<u>December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2010</u>
	<u>New Taiwan Dollars</u>		<u>US Dollars</u>
	(Unaudited- Note 2)		
Earnings generated in 1997 and prior years	\$ 40,389	\$ 40,389	\$ 1,387
Earnings generated in 1998 and thereafter	<u>4,328,058</u>	<u>4,780,774</u>	<u>164,118</u>
	<u>\$ 4,368,447</u>	<u>\$ 4,821,163</u>	<u>\$ 165,505</u>

E. As of December 31, 2010, unused loss carryforwards of Darts Technologies Corporation, Glory Science Co., Ltd., Du Precision Industry Co., Ltd., Proconn Technology Co., Ltd. and World Circuit Technology Co., Ltd. can be carried forward as follows:

<u>Effective date</u>	<u>Amount in NT Dollars</u>	<u>Amount in US Dollars</u>
2015	\$ 34,658	\$ 1,190
2016	79,635	2,734
2017	15,504	532
2018	66,067	2,268
2019	28,711	986
2020	26,401	906
Total	<u>\$ 250,976</u>	<u>\$ 8,616</u>

F. As of December 31, 2010, the income tax returns of the Company through 2008 had been assessed by the Tax Authority. The Company's additional income tax of \$100,900 (US\$3,464), \$185,034 (US\$6,352) and \$19,479 (US\$669) was assessed for the years 2006, 2007 and 2008, respectively. The Company disagreed with the Tax Authority's ruling on the 2006, 2007 and 2008 income tax returns, and had filed a tax administrative remedy for the assessment. Relative to the additional income tax payable for 2006 and 2007, the Company had filed an appeal for reassessment with the Tax Authority, and the related petition procedures are ongoing. The Company has applied for reinvestigation of 2008 income tax return for additional tax payable assessed by the Tax Authority. For conservative purposes, the Company had accrued relevant liabilities stated above.

G. The consolidated subsidiaries of the Group, FGEDG and FGEKS, etc. are foreign-invested enterprises established in PRC. Under the income tax laws for foreign invested enterprises and foreign enterprises of PRC and related regulations, these companies are exempt from corporate income tax for the first two profit-making years and enjoy a 50% income tax reduction from the third to the fifth profit-making years. NE, FETJ, FGEKS and FEDG are eligible for the tax exemption starting from 2005, 2006 and 2007, respectively. Other Mainland China subsidiaries are eligible for the tax exemption starting from January 1, 2008 in accordance with the "New Corporate Income Tax Law of the PRC".

- H. In accordance with the amendment of the Income Tax Law, effective from January 1, 2010, the profit-seeking enterprise income tax rate will be reduced from 25% to 17%. The effect of changes in the deferred tax asset or liability resulting from recomputation of deferred tax asset or liability due to the change in Income Tax Law had been recognized by the Company as an adjustment to current income tax expense.
- I. Tax effect of book-tax income difference arose from investment income (loss), amortization of discount on bonds payable and unrealized gain (loss) on valuation of financial liabilities.

18) Share-based payment - employee compensation plan

A. As of December 31, 2010, the Company's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions	Actual resignation rate in the current period	Estimated future resignation rate
Employee stock options	2007.12.28	40,000,000	7 years	The stock options may be exercised in installments after two years of issuance of stock options.	0.11%	-

B. Details of the employee stock options are set forth below:

	For the year ended December 31, 2009		For the year ended December 31, 2010	
	No. of shares (in thousand shares)	Weighted-average exercise price (in dollars)(Note)	No. of shares (in thousand shares)	Weighted-average exercise price (in dollars)(Note)
Options outstanding at beginning of year	39,884	\$ 55.7	39,120	\$ 52.6
Options granted	(681)	-	(3,026)	53
Options revoked	(83)	55.7	(44)	52.6
Options outstanding at end of year	39,120	\$ 55.7	36,050	\$ 52.6
Options exercisable at end of year	11,259		20,152	

(Note) Under the stock-based employee compensation plan, the weighted-average exercise price of the outstanding shares at beginning of the period is subject to adjustments due to changes in the number of common shares.

C. For the employee stock options granted in 2007, since their grant date was before the effectivity of EITF 92-072, "Accounting for Employee Stock Options", as prescribed by the R.O.C. Accounting Research and Development Foundation, compensation cost under the share-based employee compensation plan is not required to be recognized retroactively for those stock options.

D. As of December 31, 2009 and 2010, the exercise price of stock options outstanding was \$55.7 and \$52.6 (in dollars), respectively, and the weighted-average remaining vesting period was 5 years and 4 years, respectively.

E. The following sets forth the pro forma net income and earnings per share based on the assumption that the compensation cost is accounted for using the fair value method (the intrinsic value method) for the stock options granted before the effectivity of R.O.C. SFAS No. 39, "Accounting for Share-based Payment":

		2009	2010	2010
		New Taiwan Dollars		US dollars
				(Unaudited- Note 2)
Net income	Net income stated in the statement of income	\$ 1,396,971	\$ 1,734,415	\$ 59,541
	Pro forma net income	1,028,101	1,524,055	52,319
Basic earnings per share (EPS) (in dollars)	EPS stated in the statement of income	3.05	3.75	0.13
	Pro forma net income	2.24	3.30	0.11
Diluted earnings per share (EPS) (in dollars)	EPS stated in the statement of income	2.85	3.71	0.13
	Pro forma net income	2.11	3.29	0.11

For the stock options granted before January 1, 2008 with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model. The weighted average parameters used in the estimation of the fair value are as follows:

Grant date	2007.12.28
Dividend rate	0%
Expected price volatility	39.98%
Risk-free interest rate	2.44%
Expected vesting period	5.05years
Exercise price per share	\$52.6
Fair value per unit	\$26.66

(Note) Under the stock-based employee compensation plan, the weighted-average exercise price of the outstanding shares at beginning of the period is subject to adjustment due to changes in the number of common shares.

19) Earnings per common share

	For the year ended December 31, 2009				
	Amount		Weighted-average Outstanding Common Shares	Earnings Per Share (in dollars)	
	Before tax	After tax	(in thousand shares)	Before tax	After tax
Consolidated net income attributable to equity holders of the Company	\$ 1,828,262	\$ 1,396,971	458,533		
Basic earnings per share				\$ <u>3.99</u>	\$ <u>3.05</u>
Dilutive effect of common stock equivalents:					
Convertible bonds	17,671	17,671	35,732		
Employees' warrants	-	-	Note 1		
Employees' bonus	-	-	1,402		
Diluted earnings per share					
Consolidated net income	\$ <u>1,845,933</u>	\$ <u>1,414,642</u>	<u>495,667</u>	\$ <u>3.72</u>	\$ <u>2.85</u>

	For the year ended December 31, 2010				
	Amount		Weighted-average Outstanding Common Shares	Earnings Per Share (in dollars)	
	Before tax	After tax	(in thousand shares)	Before tax	After tax
Consolidated net income attributable to equity holders of the Company	\$ 1,993,581	\$ 1,734,415	462,384		
Basic earnings per share				\$ <u>4.31</u>	\$ <u>3.75</u>
				(US\$ 0.15)	(US\$ 0.13)
Dilutive effect of common stock equivalents					
Convertible bonds	133,990	133,990	33,322		
Employees' warrants	-	-	4,758		
Employees' bonus (Note 1)	-	-	3,156		
Diluted earnings per share					
Consolidated net income	\$ <u>2,127,571</u>	\$ <u>1,868,405</u>	<u>503,620</u>	\$ <u>4.22</u>	\$ <u>3.71</u>
	(US\$ 73,037)	(US\$ 64,140)		(US\$ 0.14)	(US\$ 0.13)

Note 1: These would have anti-dilutive effect if the treasury stock method is adopted; accordingly, these were not included as the shares were anti-dilutive.

Note 2: Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would increase from employees' stock bonus issuance in the calculation of the weighted-average number of common shares outstanding during the reporting year, taking into account the dilutive effects of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have

already been resolved at the stockholders' meeting held in the reporting year. Since capitalization of employees' bonus no longer belongs to distribution of stock dividends (or retained earnings and capital reserve capitalized), the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

Note 3: The weighted-average outstanding common shares for 2008 have been adjusted retroactively based on the dividends distribution rate of 1% for the retained earnings capitalized in 2009.

20) Personnel, depreciation and amortization expenses

The Group's personnel, depreciation and amortization expenses are as follows:

	For the year ended December 31, 2009		
	Cost of	Operating	Total
	goods sold	expenses	
New Taiwan Dollars			
Personnel expenses			
Salaries	\$ 3,599,648	\$ 2,177,817	\$ 5,777,465
Insurance	28,309	85,185	113,494
Pension	12,924	61,530	74,454
Others	144,295	156,877	301,172
Depreciation	1,421,734	645,513	2,067,247
Amortization	14,013	81,680	95,693

	For the year ended December 31, 2010		
	Cost of	Operating	Total
	goods sold	expenses	
New Taiwan Dollars			
Personnel expenses			
Salaries	\$ 6,013,352	\$ 2,393,047	\$ 8,406,399
Insurance	152,683	154,855	307,538
Pension	18,128	58,349	76,477
Others	258,914	122,392	381,306
Depreciation	1,679,934	647,406	2,327,340
Amortization	46,133	65,988	112,121

	For the year ended December 31, 2010		
	Cost of	Operating	Total
	goods sold	expenses	
US Dollars			
(Unaudited-Note 2)			
Personnel expenses			
Salaries	\$ 206,432	\$ 82,150	\$ 288,582
Insurance	5,241	5,316	10,557
Pension	622	2,003	2,625
Others	8,888	4,202	13,090
Depreciation	57,670	22,225	79,895
Amortization	1,584	2,265	3,849

Note a : Portion of depreciation was capitalized and included in the production costs of molds.

Note b : Depreciation included in non-operating expenses amounted to \$29,443 and \$22,459 (US\$771) for the years ended December 31, 2009 and 2010, respectively.

5. RELATED PARTY TRANSACTIONS

A. Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Hon Hai Precision Industry Co., Ltd. (Hon Hai)	The CEOs of Hon Hai and the Company are brothers
Well Shin Technology Co., Ltd. (WST)	Investee company accounted for under the equity method
Foxlink Image Technology Co., Ltd. (Foxlink Image)	An indirect investee company accounted for under the equity method
Microlink Communications Inc. (Microlink)	//
Nu Cam Corporation (Nu Cam)	An indirect investee company accounted for under the equity method
Suntain Co., Ltd. (Suntain)	An affiliate
Xie Xum Electronics (Ji An) Ltd. (Xie Xun)	An indirect investee company accounted for under the equity method
Shen Zhen Luxshare Precision Industry Co., Ltd. (Luxshaer)	An affiliate
Power Quotient International Co., Ltd. (PQI)	An indirect investee company accounted for under the equity method
Power Quotient International (Hong Kong) Co., Ltd. (PQI HK)	Investee company of PQI accounted for under the equity method

Note : For other related party transactions with other controlled subsidiaries, please refer to Note 11 for additional disclosures as required by SFB.

B. Significant related party transactions and balances

1) Sales

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited- Note 2)
Hon Hai	\$ 668,240	\$ 729,494	\$ 25,043
WST	214,726	143,684	4,933
Suntain	54,368	-	-
Foxlink Image	38,739	13,973	480
Others	21,657	30,169	1,035
	<u>\$ 997,730</u>	<u>\$ 917,320</u>	<u>\$ 31,491</u>

Sales of finished goods to Hon Hai are at arm's-length. All other sales to related parties are based on negotiated terms because the related products are unique and not available to third parties. For the years ended December 31, 2009 and 2010, the credit term on sales to related parties was 120 to 180 days after monthly billings. The credit term on sales to third parties was 30~120 days after monthly billing upon shipment of goods, except for receivables arising from the sales of tooling that are collectible upon acceptance by customers.

2) Purchases

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
WST	\$ 810,467	\$ 951,796	\$ 32,674
Hon Hai	469,547	490,203	16,828
Xie Xum	-	674,969	23,171
Others	5,118	86,147	2,957
	<u>\$ 1,285,132</u>	<u>\$ 2,203,115</u>	<u>\$ 75,630</u>

All purchases from related parties are at arm's-length. Payment period was 60~120 days after receipt of goods from suppliers.

3) Research and development expense-technical compensation receivable

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
	(Unaudited -Note 2)		
Mircrolink	\$ -	\$ 137,699	\$ 4,727

The Company signed a technology service contract with Microlink. Under the contract, Microlink shall provide research and development service to the Company and the payment term is based on the agreement between both parties.

4) Non-operating income - other income

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
	(Unaudited -Note 2)		
Suntain	\$ 67,052	\$ 90,232	\$ 3,097
Microlink	-	103,668	3,559
	<u>\$ 67,052</u>	<u>\$ 193,900</u>	<u>\$ 6,656</u>

Effective from October 1, 2009, the Company received technical compensation receivable from Suntain, which was recognized in “non-operating income-other income”. Effective from July 1, 2010, the Company collects the revenue from Microlink on management service also based on the net amount by offsetting such revenue receivables against the Company’s payables to Microlink and collects depending on Microlink’s financial condition.

5) Accounts receivable

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
	(Unaudited -Note 2)		
Hon Hai	\$ 117,812	\$ 242,720	\$ 8,332
WST	83,518	33,039	1,134
Suntain	44,922	-	-
Others	41,720	51,784	1,778
	287,972	327,543	11,244
Less: Allowance for doubtful accounts	(22,000)	(22,000)	(755)
	<u>\$ 265,972</u>	<u>\$ 305,543</u>	<u>\$ 10,489</u>

6) Other receivables

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
	(Unaudited -Note 2)		
Suntain	\$ 70,315	\$ 145,105	\$ 4,981
Microlink	-	101,324	3,479
Others	1,916	-	-
	<u>\$ 72,231</u>	<u>\$ 246,429</u>	<u>\$ 8,460</u>

For details of the Suntain technical compensation receivable and Microlink administrative service receivables, please see Note 5.B.4.

7) Accounts payable

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
	(Unaudited -Note 2)		
WST	\$ 182,136	\$ 176,595	\$ 6,062
Xie Xum	-	497,282	17,071
Hon Hai	11,694	51,894	1,782
Others	21,480	15,896	546
	<u>\$ 215,310</u>	<u>\$ 741,667</u>	<u>\$ 25,461</u>

8) Accrued expenses

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
	(Unaudited -Note 2)		
Microlink	\$ -	\$ 20,164	\$ 692

For details of the Microlink expenses, please see Note 5.B.3.

9) Other payables

	December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Microlink	\$ 10,035	\$ 149,823	\$ 5,143
PQI	-	186,406	6,399
Others	-	6,473	223
	<u>\$ 10,035</u>	<u>\$ 342,702</u>	<u>\$ 11,765</u>

The above payables pertain to receipts of payment for goods and other purchases on behalf of Microlink.

10) Financing activities and guarantees

See Note 11.

11) Information on remuneration to directors and supervisors

	For the years ended December 31,		
	2009	2010	2010
	New Taiwan Dollars		US Dollars
			(Unaudited -Note 2)
Salaries	\$ 47,967	\$ 34,828	\$ 1,196
Bonus	7,149	10,498	360
Service execution fees	-	2,217	76
Profits distributions	21,116	971	33
Total	<u>\$ 76,232</u>	<u>\$ 48,514</u>	<u>\$ 1,665</u>

A. Salaries includes wages, premium, pension and severance pay etc.

B. Bonus includes all kinds of bonus and rewards.

C. Service execution fees include travel or transportation allowance, special expenditures, various allowance, housing & vehicle benefits, etc.

D. Profits distributions represent the current estimations of remuneration to directors and supervisors and employees' bonus.

E. For other related information, please refer to the Company's annual report.

6. PLEDGED ASSETS

	December 31,		Purpose of collateral
	2009	2010	
	Book value-New Taiwan Dollars		
Bank deposits (Other financial assets-non-current)	\$ 82,017	\$ 10,874 (US\$ 373)	Tariff duty quarantine
Other intangible asset - land use rights	\$ 23,114	\$ - US\$ -	Short-term loans
Buildings	\$ 19,634	\$ - US\$ -	Long-term loans

7. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

A) See Note 11 for guarantee information.

B) As of December 31, 2010, equipment purchase commitments amounted to \$712,666 (US\$24,465) and the amount outstanding was \$334,368 (US\$11,478).

C) As of December 31, 2010, the construction commitments amounted to \$554,814 (US\$19,046) and the amount outstanding was \$147,934 (US\$5,078).

8. SIGNIFICANT LOSSES FROM DISASTERS

None.

9. SIGNIFICANT SUBSEQUENT EVENT

None.

10. OTHER INFORMATION

1) Financial statement presentation

Certain accounts in the 2009 financial statements were reclassified to conform with the 2010 financial statement presentation.

2) Fair value of financial instruments

	December 31, 2009			December 31, 2010			December 31, 2010		
	Book value	Fair value		Book value	Fair value		Book value	Fair value	
		Quotations in an active market	Estimated using a valuation technique		Quotations in an active market	Estimated using a valuation technique		Quotations in an active market	Estimated using a valuation technique
(Unaudited-Note 2)									
<u>Non-derivative financial instruments</u>									
<u>Assets</u>									
Financial assets with fair values equal to book values	\$ 12,046,674	\$ -	\$ 12,046,674	\$ 21,501,563	\$ -	\$ 21,501,563	\$ 738,124	\$ -	\$ 738,124
Financial assets at fair value through profit or loss	340,722	340,772	-	80,596	80,596	-	2,767	2,767	-
Available-for-sale financial assets-current	-	-	-	989,977	989,977	-	33,985	33,985	-
Financial assets carried at cost	259,241	-	-	37,500	-	-	1,287	-	-
Refundable deposits	16,390	-	16,390	165,410	-	165,410	5,678	-	5,678
<u>Liabilities</u>									
Financial liabilities with fair values equal to book values	9,360,893	-	9,360,893	24,947,059	-	24,947,059	856,404	-	856,404
Financial liabilities at fair value through profit or loss	3,983	-	3,983	2,744	-	2,744	94	-	94
Bonds payable	3,125,288	-	3,125,288	895,217	-	895,217	30,732	-	30,732
Long-term loans	1,450,000	-	1,450,000	4,783,572	-	4,783,572	164,215	-	164,215
<u>Derivative financial instruments</u>									
<u>Assets (Liabilities)</u>									
Forward exchange contracts for non-trading purposes	4,692	4,692	-	68,134	68,134	-	2,339	2,339	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- A. For financial assets and liabilities with fair values equal to book values, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash, notes receivable, accounts receivable, other receivables, deposits-out, short-term loans, notes payable and accounts payable, accrued expenses, other payables, long-term liabilities-current portion and deposits-in.
- B. The fair value of financial assets at fair value through profit or loss and beneficiary certificates is based on their net asset value at balance sheet date; the fair value of convertible bonds is based on the closing price at balance sheet date.
- C. If available-for-sale financial assets have quoted price in an active market, their fair value is based on the quoted price; if no market value is available, their fair value is estimated using a valuation technique.
- D. Financial assets carried at cost were measured at cost since their fair value cannot be measured reliably.

- E. Convertible bonds are expected to be converted totally. As the Company estimates that all the bonds payable will be converted into common stocks, the Company uses their book value as their fair value.
- F. The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date.
- G. As the interest rate of long-term liabilities is approximate to the market interest rate, the present value of expected cash flow amount (i.e. fair value) is approximately equal to the book value.

3) Strategies for financial risk control and hedge

The Group adopted total risk management and control system to identify all the Group's risks and enable the Group's management to control and measure market risk, credit risk, and operational risk. Considering the effects of economic circumstances, competition, and market price risk, the objective of the Group's market risk control is to achieve optimal risk position, maintain adequate liquidity position, and manage all market risks collectively. To meet its risk management objectives, the Company adopts the following strategies to control financial risks:

Interest rate risk

The Company's borrowings mainly lie in bank loans with maturity in one year or loans with fixed interest rate plus some spread. The Company observes interest rate trend continually to diminish interest rate risk.

Foreign exchange risk

The Company adopts derivative financial instruments, such as forward exchange contract, to hedge cash flow fair value risk of foreign currency assets arising from foreign exchange rate fluctuations. The Company monitors the changes of foreign exchange rate all the time and pre-sets a "stop loss" amount to diminish foreign exchange risk.

Credit risk

The Company has a stringent credit policy in place. Transactions are conducted only with counterparties with good credit conditions. Appropriate measures are also undertaken where necessary to protect the Company's credit rights and thereby mitigate credit risk.

4) Information of financial risk

A. Market risk

a) Exchange rate risk

The fair value of foreign exchange forward contract was affected by the exchange rate fluctuations. The Group has set a stop-loss point according to the risk of the contract price variation; therefore, it does not expect to have significant market risk.

The Group primarily uses US dollars as the valuation unit in purchases and sales, and the fair value of foreign currency will change as the market exchange rate changes. If the short-term position gap arises, the Group will enter into foreign exchange forward contract, so it does not expect to have significant market risk. The amount of fair value would decrease by \$3,096, which was based on the assumption that the exchange rate is increased by 1% at the balance sheet date.

The Company's functional currency is New Taiwan Dollars (NTD), and most of its subsidiaries' functional currencies are RMB, HKD and USD. For any business transaction that involves other non-functional currencies, the change in fair value will be caused by fluctuations in the foreign exchange rate. Information on foreign currency assets and liabilities are set forth below:

(Foreign currency: Functional currency) <u>Financial Instruments</u>	December 31, 2009		December 31, 2010	
	Foreign currency (in thousands)	Exchange rate	Foreign currency (in thousands)	Exchange rate
<u>Financial asset</u>				
<u>Monetary Items</u>				
USD:NTD	\$ 193,472	31.99	\$ 370,726	29.13
JPY:NTD	199,153	0.35	46,425	0.36
RMB:HKD	96,373	1.14	109,736	1.18
USD:RMB	35,053	6.83	33,192	6.59
<u>Long-term equity investments</u>				
RMB:USD	47,617	0.15	47,617	0.15
RMB:HKD	27,292	1.14	18,169	1.18
Financial liabilities				
<u>Monetary Items</u>				
USD:NTD	102,719	31.99	419,282	29.13
JPY:NTD	164,609	0.50	414,691	0.36
HKD:NTD	79,953	4.13	62,239	3.75
USD:HKD	41,046	7.75	41,210	7.76
RMB:HKD	63,370	1.14	148,969	1.18
USD:RMB	132,352	6.83	166,990	6.59

b) Interest rate risk

The Group's short-term loans are due within one year or at a fixed rate and accordingly, interest rate risk is low.

c) Price risk

The Group's investments in equity instruments are subject to price fluctuations. The Group has set stop-loss points and accordingly, market risk is low.

B. Credit risk

The Group's derivative counterparties are well-known banks or asset management companies, and the Group also trades with different banks or asset management companies to disperse the risk. Accordingly, the counterparties are expected to comply with the contracts. The largest amount of the credit risk is the book value.

The debtors of the Group's accounts or notes receivable have good credit standing. The Group has credit insurance coverage for majority of its customers. Accordingly, credit risk is low.

C. Liquidity risk

The Group expects the foreign exchange forward contracts to result in a cash inflow of US\$76,000 and outflow of NT\$2,250,983 in January and April 2011, respectively. The exchange rate is reasonably assured and the Group has sufficient operating capital to meet the above cash needs.

The equity instruments are traded in active markets and accordingly, are expected to be readily sold at approximately its fair value.

D. Cash flow risk

The Group's short-term loans are due within one year and accordingly, cash flow risk arising from interest rate change is low. The Group's long-term loans are at fixed interest rate plus markup and accordingly, cash flow risk is low.

The Group's bonds payable are zero coupon bonds and accordingly, cash flow risk is low.

11. ADDITIONAL DISCLOSURE INFORMATION OF INVESTEE COMPANY REQUIRED BY SECURITIES AND FUTURES BUREAU

1) Related information of significant transactions

A. Financing activities to any company or person:

a) The Company:

Number	Creditor	Borrower	General ledger account	Maximum outstanding balance during the year ended	Balance at	Interest rate	Nature of loan (Note 1)	Amount of	Reason for short – term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
				December 31, 2010	December 31, 2010			transactions with the borrower			Item	Value		
0	Cheng Uei Precision Industry Co., Ltd.	Fu Gang Electronics (Tian Jin) Ltd.	Other receivables - related parties	NT\$215,125 (US\$7,385) (Note 2)	NT\$215,125 (US\$7,385) (Note 2)	-	1	\$227,482 (US\$7,809)	-	\$-	-	\$-	The ceiling for total amount of withdrawals was 20% of the Company's net assets \$3,920,053 (US\$134,571)	The ceiling for total amount of withdrawals was \$7,840,106 (US\$269,142), which was 40% of Company's net assets
0	"	Dong Gong Fu Qiang Electronics Ltd.	"	NT\$134,391 (US\$4,613) (Note 2)	- (Note 2)	-	1	\$2,237,777 (US\$76,820)	-	-	-	-	"	"
0	"	Fu Yang Electronics (Kun Shan) Ltd.	"	NT\$53,481 (US\$1,836) (Note 2)	- (Note 2)	-	2		Operating	-	-	-	"	"
0	"	Kunshan Fushijing Electronics Co., Ltd.	"	NT\$160,652 (US\$5,515) (Note 2)	- (Note 2)	-	2		"	-	-	-	"	"
0	"	Suntain Co., Ltd.	"	NT\$45,934 (US\$1,577) (Note 2)	NT\$45,934 (US\$1,577) (Note 2)	-	2		"	-	-	-	"	"
1	World Circuit Technology Co., Ltd.	World Circuit Technology (Hong Kong) Limited	"	NT\$25,292 (US\$868)	-	-	2		"	-	-	-	"	"
1	"	Shanghai World Circuit Technology Co., Ltd.	"	NT\$25,870 (US\$888)	-	-	2		"	-	-	-	"	"
2	Fu Gang Electronics (Kun Shan) Ltd.	Darts Technologies (Shang Hai) Co., Ltd.	"	RMB\$35,600 (US\$5,402)	RMB\$26,000 (US\$3,946)	-	2		"	-	-	-	"	"
2	"	Fu Hong Jin Real Estate (Kun Shan) Co., Ltd.	"	RMB\$122 (US\$19)	-	-	2		Build Plant	-	-	-	"	"
2	"	Fu Yang Electronics (Kun Shan) Ltd.	"	RMB\$7,000 (US\$1,062)	-	-	2		"	-	-	-	"	"
2	"	Fu Shiewi Electronics (Kun Shan) Co., Ltd.	"	RMB\$130 (US\$20)	RMB\$130 (US\$20)	-	2		Operating	-	-	-	"	"
2	"	Shang Hai World Circuit Technology Co., Ltd.	"	RMB\$5,500 (US\$835)	-	-	2		"	-	-	-	"	"
2	"	Kunshan Fugang Electronics Trading Co., Ltd.	"	RMB\$5,000 (US\$759)	RMB\$5,000 (US\$759)	-	2		"	-	-	-	"	"

Number	Creditor	Borrower	General ledger account	Maximum outstanding balance during the year ended December 31, 2010	Balance at December 31, 2010	Interest rate	Nature of loan (Note 1)	Amount of transactions with the borrower	Reason for short – term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
				RMB\$5,000 (US\$759)	-	-	2	-	Build Plant	-	Item	Value	The ceiling for total amount of withdrawals was 20% of the Company's net assets \$3,920,053 (US\$134,571)	The ceiling for total amount of withdrawals was \$7,840,106 (US\$269,142), which was 40% of Company's net assets
3	Fushlin Electronics (Dong Gong) Co., Ltd.	Dong Guan Fu Qiang Co., Ltd.	Other receivables - related parties	RMB\$5,000 (US\$759)	-	-	2	-	Build Plant	-	-	-	The ceiling for total amount of withdrawals was 20% of the Company's net assets \$3,920,053 (US\$134,571)	The ceiling for total amount of withdrawals was \$7,840,106 (US\$269,142), which was 40% of Company's net assets
4	Glory Science Co., Ltd.	Glory Optics (BVI) Co., Ltd.	"	NT\$73,479 (US\$2,522)	-	-	1	\$364,114 (US\$12,500)	-	-	-	-	"	"
5	Fu Gang Electronics (Dong Guan) Ltd.	Dong Guan Fu Qiang Co., Ltd.	"	RMB\$22,000 (US\$3,339)	RMB\$22,000 (US\$3,339)	-	2	-	Operating	-	-	-	"	"
6	Proconn Technology Co., Ltd.	Media Universe Inc.	"	NT\$9,954 (US\$342)	-	-	2	-	"	-	-	-	"	"
6	"	Media Universe Inc.	"	USD 4,244	USD 1,500	-	2	-	"	-	-	-	"	"
6	"	Byford International Ltd.	"	USD 8	-	-	2	-	"	-	-	-	"	"
7	Media Universe Inc.	Proconn Technology (Suzhou) Co., Ltd.	"	NT\$17,384 (US\$597)	NT\$2,206 (US\$76)	-	2	-	"	-	-	-	"	"
7	"	Proconn Technology (Suzhou) Co., Ltd.	"	USD 6,074	USD 5,805	-	2	-	"	-	-	-	"	"
8	Cu International Ltd.	Fu Yang Electronics (Kun Shan) Ltd.	"	NT\$53,481 (US\$1,836)	NT\$53,481 (US\$1,836)	-	2	-	"	-	-	-	"	"
8	"	Kunshan Fushijing Electronics Co., Ltd.	"	NT\$157,656 (US\$5,412)	NT\$110,738 (US\$3,802)	-	2	-	"	-	-	-	"	"
8	"	World Circuit Technology (Hong Kong) Limited	"	USD 787	USD 787	-	2	-	"	-	-	-	"	"
9	Glory Optics	Glory Tek (Suzhou) Ltd.	"	NT\$175,948 (US\$6,040)	NT\$105,050 (US\$3,606)	-	1	\$365,437 (US\$12,545)	-	-	-	-	"	"
10	Studio A Inc.	Studio A (Hong Kong) Inc.	"	USD 1,605	-	-	2	-	Operating	-	-	-	"	"
10	"	Studio A (Hong Kong) Inc.	"	HKD 897 (US\$115)	-	-	2	-	"	-	-	-	"	"
10	"	Studio A (Hong Kong) Inc.	"	NT\$980 (US\$34)	-	-	2	-	"	-	-	-	"	"
10	"	Jing Sheng Technology Co., Ltd.	"	NT\$2,700 (US\$93)	-	-	2	-	"	-	-	-	"	"
11	Darts Technologies (Shang Hai) Co., Ltd.	Fine Stone Electronic Technology (Shanghai) Co., Ltd.	"	RMB\$363 (US\$55)	RMB\$363 (US\$55)	-	2	-	"	-	-	-	"	"

Note 1: The numbers as follows represent the nature of loan:

- Business transaction is labeled as "1".
- Short-term financing is labeled as "2".

Note 2: Securities and Futures Institution (SFI) Ruling (93) Chi-Mi-Tzu No. 167 requires overdue receivables to be regarded as loans to related parties and reclassified to other receivables, if the credit terms of the related parties are obviously longer than the normal credit terms of the third parties.

B. Guarantee information:

Number	Endorser/guarantor	Party being endorsed / guaranteed	Relationship with the endorser/guarantor	Limit on endorsements / guarantees provided for a single party	Maximum outstanding endorsement/guarantee amount during the year ended December 31, 2010	Outstanding endorsement /guarantee amount at December 31, 2010	Amount of endorsements/guarantees secured with collateral	Ratio of accumulated endorsement/guarantee amount to net asset value of the Company	Ceiling on total amount of endorsements/guarantees provided
0	Cheng Uei Precision Industry Co., Ltd.	Fu Gang Electronics (Kun Shan) Ltd.	An indirect wholly-owned subsidiary	The ceiling of total outstanding guarantees and guarantee for single party except for subsidiaries is 50% and 40% of the Company's net assets, respectively.	US\$45,000	US\$36,000	None	5%	The Company's guarantee to others should not exceed 50% of the Company's net assets. As of December 31, 2010, the maximum amount of guarantee that the Company could provide was NT\$9,800,132(US\$336,427)
0	"	Fu Gang Electronics (Dong Guan) Ltd.	"	"	US\$15,000	US\$15,000	"	2%	"
0	"	Dong Guan Fu Qiang Electronics Ltd.	"	"	US\$30,000	US\$20,000	"	3%	"
0	"	Shanghai World Circuit Technology Co., Ltd.	"	"	US\$5,000	US\$5,000	"	1%	"
0	"	Fu Yang Electronics (Kun Shan) Ltd.	"	"	US\$39,000	US\$29,000	"	4%	"
0	"	Fushiming Electronics (Kun Shan) Co., Ltd.	"	"	US\$5,000	US\$5,000	"	1%	"
0	"	Valiant Plus Co., Ltd.	"	"	US\$20,000	US\$20,000	"	3%	"
0	"	Studio A (Hong Kong) Inc.	"	"	US\$9,000	US\$9,000	"	1%	"
0	"	Fushineng Electronics (Kun Shan) Co., Ltd.	"	"	US\$3,000	US\$3,000	"	0%	"
1	Du Precision Industry Co., Ltd.	Celink International Ltd.	Subsidiary	"	US\$6,000	US\$6,000	"	1%	"
2	Glory Science Co., Ltd.	Glory Tek (Suzhou) Ltd.	An indirect wholly-owned subsidiary	"	US\$3,000	US\$2,000	"	0%	"
3	Proconn Technology Co., Ltd.	Proconn Technology (Suzhou) Co., Ltd.	"	"	US\$2,000	US\$2,000	"	0%	"

The succeeding disclosures are omitted. For the complete details of Note 11, please refer to the Chinese-language auditors' report and financial statements.